On MSP, Modi Government Must Display Maturity and Give Farmers Their Due

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Farmers and workers' protest in Punjab on November 27, 2023. Photo: X (Twitter)/@mishra_surjya

opinion

Economy

The discussion must move from being an ego tussle between the Modi government and farmers, into a clear fiscal priority for the government.

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One of the key demands for the ‘Dilli Chalo’ march is a legal guarantee of minimum support price (MSP). The government is fuelling a media-linked narrative to confuse people that guaranteeing MSP would add to the fiscal cost of the government.

Note, how during the year-long Kisan Andolan, a guaranteed MSP was one of the two main demands made by protesting farmers then. The first was for repealing the three-agri reform laws and the second was to provide a legal guarantee on MSP. While the Modi government ultimately conceded to the first, it never committed to the latter.

How can MSP be made legally binding?

As Harish Damodaran explains here, there are two ways in which the MSP can be made legally binding for the government. The *first* is to force private buyers to pay it. In this case, no crop can be purchased below the MSP, which would also act as the floor price for bidding in mandi auctions.

As suggested here, “There’s already a precedent for private players to pay for MSP: In sugarcane, mills are required by law to pay growers the Centre’s “fair and remunerative price” – Uttar Pradesh and Haryana fix even higher state advised prices – within 14 days of supply. In no other crop is the compulsion to pay the government-announced MSP thrust on the private trade/industry”.

The *second* route is, of course, the government itself buying the entire crop that farmers offer at the MSP. This would mean an added fiscal cost for the government to pay for this – at a time when it has clearly prioritised capex-based expenditure at the cost of social welfare, farm subsidies, and other essential scheme-based expenditure.

Back in 2019-20, before the Andolan, government agencies like the Food Corporation of India, National Agricultural Cooperative Marketing Federation of India and Cotton Corporation of India (CCI) – procured 77.34 million tonnes (mt) of paddy and 38.99 mt of wheat, worth roughly Rs 140,834 crore and Rs 75,060 crore at their respective MSPs. Further, they purchased 105.23 lakh bales of cotton (MSP value of Rs 28,202 crore in terms of raw un-ginned kapas), 2.1 mt of chana or chickpea (Rs 10,238 crore), 0.7 mt each of arhar or pigeon-pea (Rs 4,176 crore) and groundnut (Rs 3,614 crore), 0.8 mt of rapeseed-mustard (Rs 3,540 crore) and 0.1 mt of moong or green gram (Rs 987 crore).

But, it’s important to put facts into perspective.

The Modi government is projecting that a guaranteed MSP would make the government cost by Rs 17 lakh crore. This figure is incorrect and the argument remains absurd for any logical reason. The actual cost of running an MSP backed by the government payout as part of a targeted scheme or a price stabilisation fund may not be more than Rs 50,000 crore. Yogendra Yadav had explained in this excellent piece (back in 2021) how the Union government can actually help farmers with this.

As explained through this chart illustrated here, the MSP value of the total production of the 23 crops (for which MSP is currently provided) worked out to around Rs 10.78 lakh crore in 2019-20. Not all this produce is marketed. Farmers also retain part of it for self-consumption, seed for the next season’s sowing, and also for feeding their animals.

“The marketed surplus ratio for different crops is estimated to range from below 50% for ragi and 65-70% for bajra (pearl-millet) and jowar (sorghum) to 75% for wheat, 80% for paddy, 85% for sugarcane, 90% for most pulses, and 95%-plus for cotton, jute, soyabean and sunflower. Taking an average of 75% would yield a number of just over Rs 8 lakh crore. This is the MSP value of production, calculated by Damodaran's estimates, that is the marketable surplus-which farmers actually sell".

However, it is not as if the government is required to pay any substantial additional fiscal cost to incur this, given it is already procuring paddy, wheat, cotton, pulses, oilseeds, etc. (from the 23 crops list) at MSP. Moreover, as done for sugarcane (in the cited reference above), the Union and the State Governments can ask private firms/buyers to pay for the MSP from what they buy/source directly from farmers.

It is worth iterating how due to the middle-man profiteering practices seen in the retail marketing of crops, across Indian cities, the farmers don't get the fair share of return on the 'high price' at which crops, vegetables, or the rest of their produce is sold in the urban market. The rising urban consumer bias, and a higher willingness to pay amongst upper middle-income groups and richer classes help in the middle-man (intermediary) profiteering of farm goods at the cost of farmer welfare, which is why farmers in rural areas need more price-based protection via MSP (richer farmers of states like Haryana and Punjab have made the government more accountable in ensuring this).

My own concern on the Union government's apathy towards farmer interests goes beyond politics alone, it is more structural to the Modi Government's misplaced budgetary strategy and a silent fiscal crisis that the government has been experiencing for some time now (where it has often failed to collect the revenue it outlays for in the budgetary estimates). This has made it even less keen to support farmers on issues like MSP.

There is also a lack of fiscal priority attributed to essential spending on programs of farm-based subsidies and existing costs, budgeted in the Union budgets of the Modi government. In the overall allocations for agriculture and allied activities, there is a decline of 22.3% compared to actual expenditure in 2022-23 and a 6% decline vis a vis the 2023-24 revised budget.

The All India Kisan Sabha (AIKS) after the recent Interim Union budget criticised the Modi government for passing an anti-farmer-centric budget for the 10th time in a row. AIKS argued how there has been no allocation to ensure that the long-standing demand of the farmers for ensuring Minimum Support Prices as per the C2+50% estimates becomes a reality.

The allocation for fertiliser subsidy in 2024-25 is Rs 87,339 crore less than the actual expenditure in 2022-23. The allocation for food subsidy is Rs 6, 7552 crore less than the actual expenditure in 2022-23. This was accompanied by budgetary cuts in rural development schemes, Pradhan Mantri Krishi Sinchai Yojana, cooperation, food storage and warehousing, plantations, crop husbandry, flood control and drainage, land reforms, fertilizer subsidy, food subsidy, dairy development, soil and water conservation, irrigation, nutrition, rural roads, housing, education and health.

It is quite clear from these macro-fiscal numbers and the lack of fiscal priority towards farmers and rural India, how the Modi Government is promoting the private sector in its fiscal policy and is still ready to embrace a strategy that promotes corporatisation of farming at the cost of farmer's own welfare and economic wellbeing.

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